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Purchasing Managers' Index Hits 60.7%

Production, New Orders Rise Sharply

Prices Increase for 13th Straight Month

Analysis by the National Association of Purchasing Management Business Survey Committee; chair, Robert J. Bretz, C.P.M., director of materials management, Pitney Bowes, inc.

The *Report on Business* is based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

September Report

The economy continued to grow in September, say the nation's purchasing managers in their latest **Report on Business.** Production rose at the fastest pace in more than three years. New orders expanded for the ninth consecutive month at the highest rate since March. The speed of vendor deliveries slowed again, mirroring the vigorous growth in production. Employment growth continued in September for the sixth time in the past seven months. Inventories were flat after growing slightly in August. September marked the 13th consecutive month that more purchasers reported price increases than decreases.

The report was issued today by Robert J. Bretz, C.P.M., chair of the National Association of Purchasing Management's Business Survey Committee, and director of materials management at Pitney Bowes, Inc. "The economy ended the third quarter with what must be characterized as robust growth," Bretz said. "All indicators were positive. Furthermore, the healthy increase in new orders is a signal that the fourth quarter will begin on a high note."

The **Purchasing Managers' Composite Index** rose to 60.7% in September, up from 59.9% in August; this is the 14th consecutive month this leading indicator has registered over 50%. At 60.7%, the index is at its highest since April 1984 (61.0%). Notes Bretz: "The Purchasing Index has averaged 56.6% for the first nine months of 1987. Based on past experience, if this average were to continue for the remainder of 1987, it would be consistent with real GNP growth of 3.8%." A reading above 50% indicates that the economy is generally expanding; below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference, the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The rate of growth in employment advanced briskly in September, the sixth month of growth in the last seven. The strength in employment is even more significant considering February 1987 ended 29 consecutive months of employment decline.

Employment	% Higher	% Same	% Lower	Net
September	19	68	13	+6
August	16	71	13	+3
July	14	69	17	−3

Buying Policy

After two consecutive months of expanding lead times for production materials, lead times declined as the number of members reporting lead times of 30 days or fewer rose to 58%, up from 54% in August and 56% in July. Lead times for capital expenditures lengthened somewhat as the number of purchasers reporting lead times of six months and longer rose to 52%, up from 50% in August, which was the lowest level since November 1985 (48%). Lead times for maintenance, repair and operating (MRO) supplies lengthened also, as the number of members reporting lead times of 30 days or fewer declined to 82%, down from 86% in August.

	Percent Reporting				
Production Materials	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
September	17	41	22	13	7
August	14	40	28	13	5
July	16	40	20	15	9
MRO Supplies					
September	42	40	11	5	2
August	41	45	9	5	0
July	40	41	12	6	1
Capital Expenditures					
September	10	8	13	17	52
August	8	7	11	24	50
July	9	6	10	19	56

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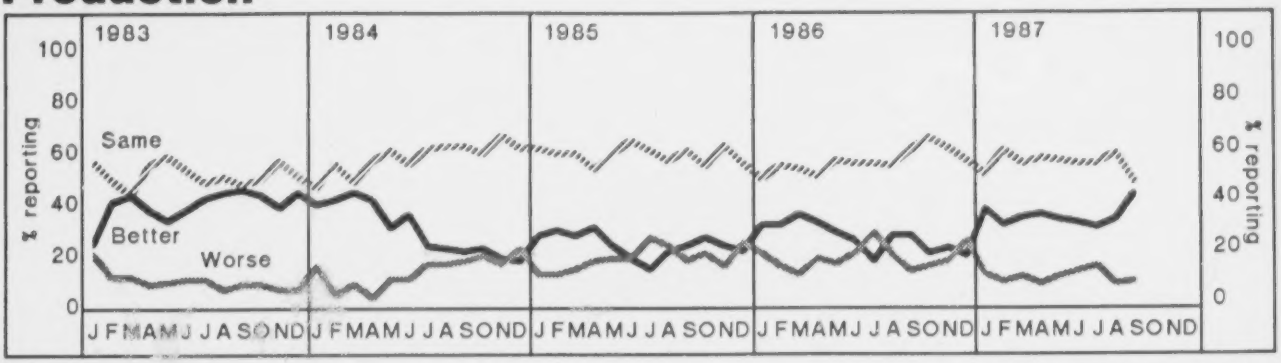
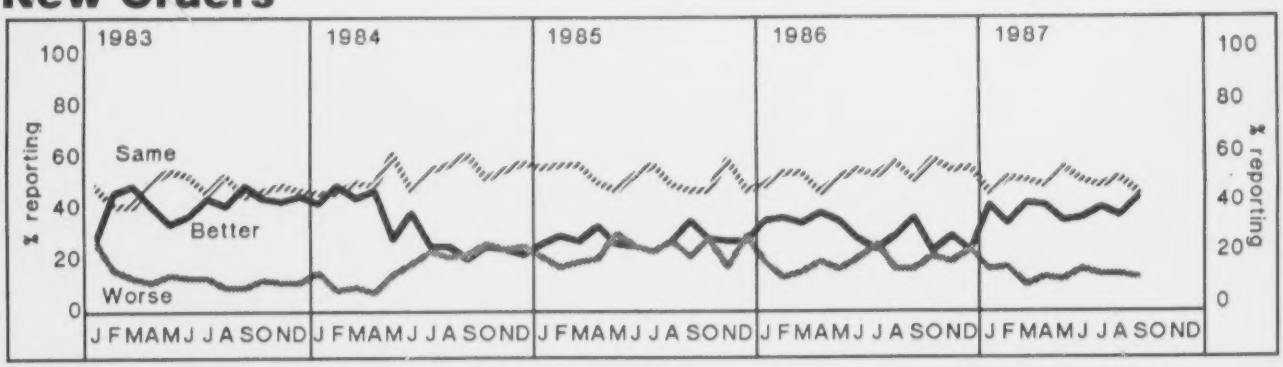
Production



The rate of increase in production rose sharply in September, the ninth consecutive month of growth. The 43% reporting better production is the most since March 1984 (44%). Viewed in light of normal seasonal slowness, this index shows exceptional strength, with the net difference between those reporting better (43%) and worse (9%) rising to a vigorous +34, the highest in more than three years.

Production	% Better	% Same	% Worse	Net
September	43	48	9	+34
August	33	59	8	+25
July	30	55	15	+15

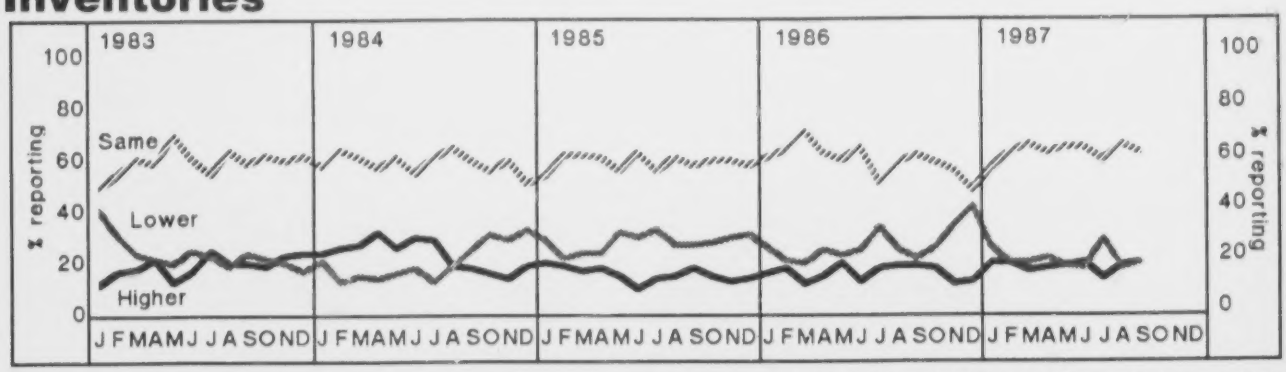
New Orders



New orders rose briskly in September, continuing a nine-month trend of expansion. The 43% of purchasing managers who reported better new orders is the highest since April 1984 (46%) and virtually assures that production will be strong entering the fourth quarter.

New Orders	% Better	% Same	% Worse	Net
September	43	45	12	+31
August	36	51	13	+23
July	39	48	13	+26

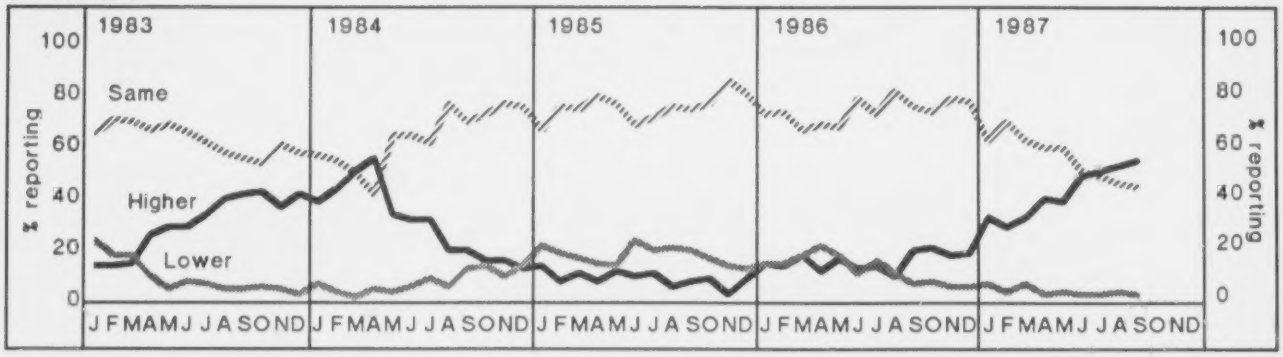
Inventories



After increasing their inventories in two of the past three months, the percentage of purchasers who indicated their inventories declined in September (19%) was matched by the percentage of those reporting their inventories grew. Thus, the growth in production was not aided by a build-up in inventories.

Inventories	% Higher	% Same	% Lower	Net
September	19	62	19	0
August	18	65	17	+1
July	13	59	28	−15

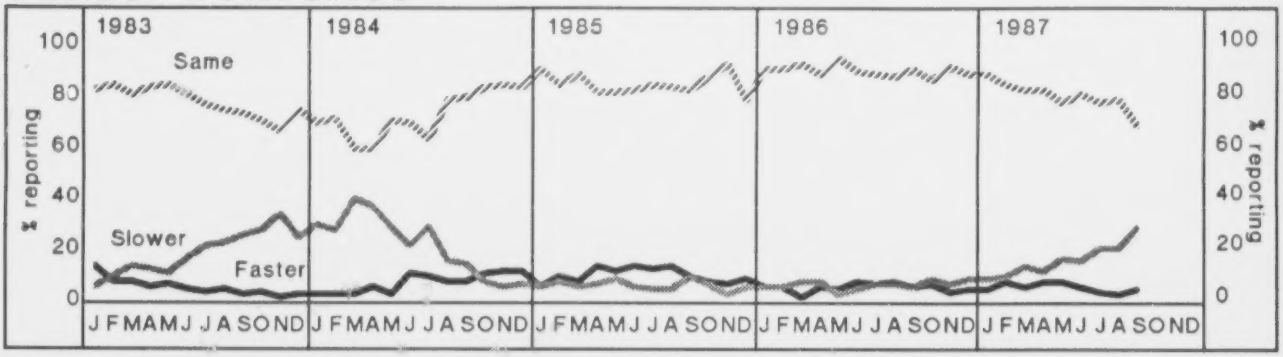
Prices



For the 13th consecutive month, more purchasers reported price increases than decreases. The net difference between those reporting higher prices (54%) and lower (2%) increased to +52, the highest since January 1981 (59%) and another reflection of a growing economy.

Prices	% Higher	% Same	% Lower	Net
September	54	44	2	+52
August	52	45	3	+49
July	50	48	2	+48

Vendor Deliveries



The speed of vendor deliveries slowed again in September, marking the 12th consecutive month this has occurred. The net difference between the number of purchasers reporting slower deliveries (28%) and those reporting faster (4%), is the highest since May 1984 (26%). This slowing, plus the short supply of many metal- and plastic-related chemicals and resins, reflects the impressive growth in production.

Vendor Deliveries	% Faster	% Same	% Slower	Net
September	4	68	28	−24
August	2	78	20	−18
July	3	77	20	−17

Specific Commodity Changes

Paper-related products reported higher in price in September were corrugated shipping containers (17th time in 18 months), printing paper (seventh time in past nine months), paper products, chlorine (fourth consecutive month) and caustic soda (10th consecutive month).

Metal products up in price were steel (12th time in last 13 months), various steel products, aluminum (eighth consecutive month) and copper (seventh consecutive month).

Petroleum-derived chemicals and plastic-related items reported higher priced were ethylene (second consecutive month), propylene, polypropylene (fourth time in past five months), polyethylene (fourth consecutive month) and plastic resins and products (both for the fourth consecutive month).

UP IN PRICE: Corrugated shipping containers, printing paper, paper products, chlorine (used heavily in making bleached paper and paper board), caustic soda (used heavily in paper making and petroleum refining), aluminum, copper, steel and steel products, plastic resins, polyethylene, polypropylene (used in making thermoplastic plastics or fibers), plastic products, propylene (used heavily in making polypropylene), ethylene (used heavily in making plastic resins).

DOWN IN PRICE: None

IN SHORT SUPPLY: Steel, steel plate, hot- and cold-rolled steel sheets, steel pipe, newsprint, chlorine, caustic soda and titanium dioxide (a lead-free pigment used heavily as a whitener in coatings, paper and other industrial applications).

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in six important categories of data: production, new orders, inventories, prices, vendor deliveries and employment. These six components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the six components of *Report on Business* listed above, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the Department of Commerce and is the only part of the report adjusted for seasonal variations.

The next issue of *Report on Business* will be available Nov. 2, 1987.

Commodity Reports

Textiles

Prepared by the N.A.P.M. Textile Committee. Chair: Gerry Korver, C.P.M., K-Products, Inc., Orange City, Iowa. Contributors: Larry N. Parkes, C.P.M., Champion Products, Inc., Rochester, New York; and Richard Blumenstein, Steelcase, Inc., Grand Rapids, Michigan.

Cotton, Polyester and Greige Goods

Business is excellent, with much varied activity. The textile and apparel industries are living in an inflationary environment different from that of industry in general. Price increases will be substantial for new raw material contracts, precipitated primarily by supply/demand conditions. General industry yarn and fabric capacities have eroded during the past five years because of increased imports, severely taxing remaining capacity. A reversal of imports in the apparel area has further taxed capacity.

Demand has increased for natural fibers, particularly cotton. The farm subsidy program has been very successful in allowing U.S. cotton to float in the world market. This, coupled with the value of the dollar, has created a very favorable export market for cotton. Exports for the 1986-87 crop year will nearly triple from last year. Uncertainties about the Chinese and Russian crops also continue to add strength to the market.

These conditions have caused cotton to move from $0.30 a pound in August 1986 to the high 70s and have created a more favorable atmosphere for synthetic fiber manufacturers to raise prices. On July 1, polyester staple increased $0.05 a pound; flat nylon increased $0.10 a pound; 200-denier nylon and textured nylon increased $0.25 a pound. The woven piece goods commission dyers announced an increase of $0.03 a yard effective October 1. Dupont announced a 6% Lycra increase effective September 1. Rayon staple prices will increase $0.05 a pound November 1. These increases are strictly raw material-related and are, in a sense, pent-up increases that were delayed because of business conditions. Labor, utilities and other cost increases are not taken into account.

The spun yarn market had difficulty holding prices in 1987. Although the fabric market has been reasonably successful in holding prices, this will change when existing contracts are consumed. 1988 may be a very difficult year to control prices. Based upon the above scenario, purchasers may anticipate prices up to 25% higher than those negotiated in the fourth quarter of 1986 and the first half of 1987. Cotton alone has increased 50%. Fabric prices will follow a similar pattern, but increases should be kept to less than 10% in most cases, with the exception of high-cotton-content fabrics.

Cost avoidances will be the name of the game. Prices will increase substantially; purchasers will need to be prepared for tough negotiations to limit the effects of these increases.

Specialty Fabrics

Growth in the world's wool market, coupled with increases in the price of synthetic fibers (polyester), has resulted in price increases for wool and wool blends. Although mill capacity is adequate, buyers must be willing to pay increases of 4% to 6% and should expect somewhat extended lead times.

Converting

Converting business remains strong with extended lead times. Pricing has shown small increases, but many converters are booked through the end of the year. Pricing will take a back seat to getting a realistic lead time buyers can live with.

Non-Ferrous Metals

Prepared by the N.A.P.M. Non-Ferrous Metals Committee. Chair: Sharon Sinke, C.P.M., Frost, Inc., Grand Rapids, Michigan.

Magnesium

An international conference on magnesium was held in May in Tokyo. A major topic of discussion was a proposed increase in the use of magnesium by the Japanese automotive market. Right now the use of magnesium in Japanese automobiles is very limited, although the Honda Formula I racing car uses quite a bit. In American cars the use of magnesium has increased to approximately two pounds per unit, mostly in air intake covers, ashtrays, doors and parts under the hood. Exterior parts are still a problem because of corrosion, but some recent work has been done to develop alloys of high purity. The high-purity alloys use very low levels of copper, iron and nickel, and improve resistance to corrosion by a factor of 100.

The Norwegians — Norsk Hydro — broke ground on their new smelter in Quebec last spring. At this printing, they are on schedule to be completed in 1989. At the Tokyo meeting, the Mineral Process Licensing Corporation announced it would build a new plant in Alberta with Alberta Natural Gas Company. Plant capacity is 12,500 tons for Phase I, 25,000 tons for Phase II, and 25,000 tons for Phase III, for a total capacity of 62,500 tons by 1992.

World use of magnesium is due to increase; these new facilities should meet the increased demand. *(Sharon Sinke, C.P.M., Frost, Inc., Grand Rapids, Michigan)*

Nickel

Nickel has been strong the past few months for several reasons. First, stainless steel uses half the worldwide nickel output. The stainless steel market has been very strong in Europe, the United States and Japan. Second, the Soviets were selling nickel in the open market; they recently cut back on sales by about half, which increased demand on other nickel producers. Finally, INCO's labor contract at its plating nickel facility expired September 15. Talks at press time appeared to be going well, but the outcome is uncertain.

Nickel's per-pound price of $2.50, which is controlled by the London metal market, is artificially inflated. Pricing should be between $2.00 and $2.50 a pound.

Two factors might influence the nickel market: if the Soviets re-enter the market, or if the demand for stainless steel slows down. *(George R.A. Milne, C.P.M., Delta Faucet Company, Indianapolis, Indiana)*

Brass and Bronze

Our March 1987 report indicated that the price of copper was rising. The Comex metal price at the time of that report was $0.63 a pound. On September 3, the Comex price was $0.7665 a pound.

Brass rod mills continue to be very busy. Delivery time for most sizes of rod is three to four weeks. Lead time for brass and bronze strip is approximately six to eight weeks.

Brass scrap prices continue to go higher. Since the beginning of 1987, buyers have seen an increase of approximately 20% in the price of scrap. As the demand for brass products continues to rise, buyers will probably see additional increases in the cost of fabrication.

During 1988, buyers should see a leveling of prices and possibly a slight reduction. It is projected that brass and bronze will be in adequate supply through 1988. *(Edward M. Straka, C.P.M., Baldwin Hardware Corporation, Reading, Pennsylvania)*

Tin

Tin is expected to remain in good supply for the next six months. Prices moved up from $3.00 this summer to a current $3.15. A range of $3.10 to $3.40 should prevail through the first quarter of next year. Surplus stocks still exist and are expected to keep a lid on prices. *(Anonymous)*

Aluminum

Few things in life are a certainty, but one of them is that the price of aluminum will certainly change, perhaps several times, before the beginning of 1988. It is almost impossible to predict the price of a commodity that is facing or will be faced with such conditions as the decreasing international inventory of basic material (pure), the possibility of a strike by one of the major producers in Canada, domestic production capacity in excess of 85%, a continuously escalating bull market in the usage of scrap in domestic secondary smelting and exporting to Pacific rim countries, a severe shortage of billet for extrusion and continued problems with the dollar.

With a spot price of $0.82 to $0.84 for unalloyed ingot and the producer price in the $0.78 to $0.80 range (producer alloy [355-356] $0.935 a pound, if not higher, by publication date of this article), it is not hard to visualize alloys being close to $1.00 a pound by year's end. Some primary alloys, e.g., Al Mag, are now being quoted at a minimum of $1.05.

The steady demand for aluminum coupled with shrinking inventories will help to maintain high ingot prices for the remainder of the year, quite possibly into the first quarter of 1988. Opinion varies as to an exception, i.e., if producers re-ignite some of the pot lines in "swing plants." Whether this aspect is being seriously considered is unknown.

Buyers must negotiate and do some extra planning to lock in a purchased price for future deliveries of material, especially for the fourth quarter. Certainly in the market we have now, a stated and agreed-upon price per pound is much better than P.T.S. *(Ted Campbell, C.P.M., Morris Bean & Company, Yellow Springs, Ohio)*